# Economic impact of COVID-19 lock down on small medium enterprise (smes) in lagos state

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### **ABSTRACT**

The effect of COVID-19 has negative consequence which has been an invisible enemy raging the entire world populace leading to a global economic crisis. Business across the globe are feeling the negative outcome of the COVID 19 pandemic threatening their ongoing economic daily activities. SMEs in Nigeria are not left out in the share of this negative pandemic, limiting their survival existence. The shutdown of economic activities has greatly affected SMEs in Nigeria. This has led to employees under SMEs lose their jobs. It was concluded that adequate measures needs to be taken by government to cushion the negative effect of COVID 19 in collapsing the existence of SMEs.

**Key words:** Effect, COVID 19, SMEs

### 1. INTRODUCTION

The novel coronavirus (COVID-19) disease first identified in Wuhan China last year has spread rapidly to almost every region of the world (Aifuwa, Saidu and Aifuwa, 2020). Being a novel virus, it poses a public health risk because there is no drug or vaccine to eradicate the spread (Addi, Benskisim, Amina and Cherkaoui, 2020). The symptoms of the virus on infected individuals include; fever, cough, shortness of breath, difficulty in breathing, chills, repeated shaking with chills, muscle pain, headache, sore throat, and loss of taste or smell (Worlometers, 2020). This dreaded virus has caused a negative impact on the global economy which has led to the crisis on business across the globe. Aribisala (2020) sees the COVID-19 it's a disease that brings global economy to a melt-down that will pick up at a slow pace due to the incessant closure of business. Aiffuwa, et al (202) submitted that coronavirus disease has negatively affected both financial and non-financial performance of business in Nigeria. The statement of health is wealth brings to bear the possibilities of survival in this current time for both humans and business. SMEs in Nigeria especially those providing essential commodities this period could help flatten the cure of the invincible enemy through sensitization of employees, enforcement of strict adherence to health policies and advice, more use of technological innovations, and the provision of temporary isolation room with basic protective kits in business organizations. Also, it brought a slowdown and total collapse of industrial productivity linking to an undetermined cause on overall economic activity. Despite large awareness campaign on by the NCDC and state government, there still exist misconception by the public on the knowledge of the disease- that the virus does not exist and that is a ploy by federal government to embezzle funds (Hassan, 2020). Abati (2020) opined that because of superstitions beliefs Nigerians ignore advice on social distancing spreading false news and creating fear in the public through various social media platforms.

Small and Medium-Scale Enterprise (SMEs) are being given increasing policy attention in recent years, particularly in third world countries partly because of growing disappointment with results of development strategies focusing on large scale capital intensive and high import dependent industrial plants. The impact of SMEs on the economy is felt in the following ways: Greater utilization of local raw materials, employment generation, encouragement of rural development, development of entrepreneurship, mobilization of local savings, linkages with bigger industries, provision of regional balance by spreading investments more evenly, provision of avenue for self-employment and provision of opportunity for training managers and semi-skilled workers. The vast majority of developed and developing countries rely on dynamism, resourcefulness and risk tasking of small and medium enterprises to trigger and sustain process of economic growth(Giannakis, E. and Bruggeman, A. 2017).

# 2. LITERATURE REVIEW

## **COVID-19 IN RELATIONSHIP WITH ECONOMIC CRISIS**

Nigeria witnessed two economic crises within a decade. The economic crisis of 2009 was as a result of the global financial crisis while the economic crisis in 2016 was as a result of the sudden fall in oil price in the

world market. The 2009 recession was caused by a combination of the after-effect of the 2007-8 global financial crisis, poor loan underwriting process in banks, bad risk management practices and poor corporate governance of banks (Sanusi, 2010). Banks were a major cause of the 2009 economic crisis. The 2016 economic crisis was caused by unexpected decline in oil price which led to a sharp drop in oil revenue which severely affected Nigeria's foreign reserve

(Adeniran and Sidiq, 2018). This led to massive balance of payment deficits combined with an already high debt burden which plunged Nigeria into its second recession in a decade.

The literature also show that economic crises have notable consequences. For instance, Carneiro et al (2014) show that the economic crisis in Portugal gave rise to job destruction due to the collapse of existing firms, increasing unemployment rate, increase in the incidence of minimum wage freeze, and also led to an increasing number of temporary workers. Cheong (2001) show that there was increasing income inequality during the Korean economic crisis, while Giannakis and Bruggeman (2017) in their analysis of the economic crisis in Greece observed that rural regions are more resistant to recessionary shocks than urban regions. Other consequences include: high mortality rates from homicide, pneumonia, and alcohol dependence during economic crisis (Khang et al, 2005), and the collapse of many small and medium scale enterprises (Soininen et al, 2012).

So far, the literature has not analyzed the effect or consequence of a health crisis on the economy. More specifically, the effect of coronavirus, or Covid-19, on economic activities and performance have not been explored in the literature.

### **Covid-19 Impact on Small Medium Enterprise**

The Covid-19 pandemic affected the global economy in two ways. One, the spread of the virus encouraged social distancing which led to the shutdown of financial markets, corporate offices, businesses and events. Two, the rate at which the virus was spreading, and the heightened uncertainty about how bad the situation could get, led to flight to safety in consumption and investment among consumers and investors (Ozili and Arun, 2020). There was a general consensus among top economists that the coronavirus pandemic would plunge the world into a global recession. Top IMF economists such as Gita Gopinath and Kristalina Georgieva stated that the Covid-19 pandemic would trigger a global recession. In financial markets, global stock markets erased about US\$6 trillion in wealth in one week from 24th to 28th of February, 2020. The S&P 500 index also lost over \$5 trillion in value in the same week in the US while the S&P 500's largest 10 companies experienced a combined loss of over \$1.4 trillion due to fear and uncertainty among investors about how the pandemic would affect firms' profit. The travel restriction imposed on the movement of people in many countries led to massive losses for businesses in the events industry, aviation industry, entertainment industry, hospitality industry and the sports industry. The combined loss globally was estimated to be over \$4 trillion. Several governments in developed countries, such as the U.S. and U.K., responded by offering fiscal stimulus package including social welfare payments to citizens while the monetary authorities offered loan relief to help businesses during the pandemic. There were also spillovers to poor and developing countries that had a weak public health infrastructure and nonexisting social welfare programs.

In overall economic development, a critically important role is played by the small and medium enterprises. Small and medium enterprises advocates, firstly, it endurance competition and entrepreneurship and hence have external benefits on economy wide efficient, and productivity growth (Ginnackis E et al, 2020). At this level, perspectives are directed towards government support and involvement in exploiting countries social benefits from greater completion and entrepreneurship. Secondly, proponents of SME support frequent claim that SMEs are generally more productive than large firms but financial market and other institutional improvements, direct government financial support to SMEs can boost economic growth and development. SMEs expansion boosts employment more than large firm growth because SMEs are more labour intensive thereby subsidizing SMEs may represent a poverty alleviation tools, by promoting SMEs and individual countries and the international community at large can make progress towards the main goal of halving poverty level by year 2020, that is, to reduce poverty by half and becoming among 20 largest World Economies. Entrepreneurial development is therefore important in the Nigeria economy which is characterized by the following heavy dependence on oil, low agricultural production, and high unemployment, low utilization of industrial capacity, high inflation rate, and lack of industrial infrastructural base. The coronavirus entered Nigeria through an infected Italian citizen who came in contact with a Nigerian citizen who was subsequently infected with the coronavirus.

# COVID-19 SPILLOVER TO THE NIGERIAN ECONOMY Direct effect

There are five main ways through which the Covid-19 pandemic spilled over into Nigeria. One, the Covid-19 pandemic affected borrowers' capacity to service loans, which gave rise to NPLs that depressed banks' earnings and eventually impaired bank soundness and stability. Subsequently, banks were reluctant to lend as more and more borrowers struggled to repay the loans granted to them before the Covid-19 outbreak. Two, there were oil demand shocks which was reflected in the sharp decline in oil price. The most visible and immediate

spillover was the drop in the price of crude oil, which dropped from nearly US\$60 per barrel to as low as US\$30 per barrel in March. During the pandemic, people were no longer travelling and this led to a sustained fall in the demand for aviation fuel and automobile fuel which affected Nigeria's net oil revenue, and eventually affected Nigeria's foreign reserve. Three, there were supply shocks in the global supply chain as many importers shut down their factories and closed their borders particularly China. Nigeria was severely affected because Nigeria is an import-dependent country and as a result Nigeria witnessed shortage of crucial supplies like pharmaceutical supplies, spare parts, and finished goods from China. Four, the national budget was also affected. The budget was initially planned with an oil price of US\$57 per barrel. The fall in oil price to S\$30 per barrel meant that the budget became obsolete and a new budget had to be formed that was re-priced with the low oil price.

Finally, the Covid-19 pandemic affected the Nigerian stock market. Major market indices in the stock market plunged when investors pulled out their investments into so-called safe havens like US Treasury bonds. Stock market investors lost over NGN2.3 trillion (US\$5.9bn) barely three weeks after the first case of coronavirus was confirmed and announced in Nigeria on January 28, 2020. The market capitalization of listed equities, which was valued at NGN13.657 trillion

(US\$35.2bn) on Friday, February 28, 2020 depreciated by NGN2.349 trillion to NGN11.308 trillion (US\$29.1bn) on Monday 23 March 2020. The All-share index closed at 21,700.98 from 26,216.46 representing 4,515.48 points or 20.8 per cent drop. The stock market crash is illustrated in figure below table 3 shows the one-month movement in the all share index.



(source: investing.com)

# Mitigating the spread of the pandemic Movement restriction

Both the State and Federal governments imposed movement restrictions in some areas across the country to control the spread of the novel coronavirus, as shown in the table below:

Table 4: Movement restriction in Nigeria during Covid-19 pandemic		
	Affected sector	Impact
1	Aviation sector	Massive flight cancellations, NCAA suspends all international airports
2	Education sector	Students were sent back home. Private and public schools and universities were closed
3	Banking sector	Senior staff work from home. Few branch staff available to attend to depositors
4	Civil service sector	Suspension from work for 14 days for remote quarantine
5	Markets	Major food markets were partially closed

6	Religious sectors	All religious services were banned during the pandemic. A Christian pastor was arrested for holding church service during the ban <sup>6</sup>
7	Sports	All sporting events were cancelled
8	All sectors	A 14-days nationwide stay-at-home lockdown was officially enforced beginning from 30 <sup>th</sup> March, 2020.
9	Eleven (11) businesses excluded from the ban <sup>7</sup>	(i) private security companies, (ii) medical establishments, (iii) broadcasters, (iv) food processing and distribution companies, (v) petroleum distribution and retail entities, (vi) power generation, transmission and distribution companies, (vii) hospitals, (viii) telecommunications workers, (ix) health care manufacturing and distribution companies, (x) print media staff, (xi) electronic media personnel.

### Using monetary and fiscal policy measures

In response to the Covid-19 outbreak, the monetary authority, the Central bank, said it would provide support to affected households, businesses, regulated financial institutions and other stakeholders to reduce the adverse economic impact of the Covid-19 outbreak. The central bank provided support in six ways. One, it granted extension of loan moratorium on principal repayments from March 1, 2020. This meant that any intervention loan currently under moratorium would be extended by one year. Two, it offered interest rate reduction on all intervention loan facilities from 9% to 5% beginning from March 1, 2020. Three, it offered (US\$131.6m) targeted credit facility to hotels, airline service providers, health care merchants, among others. Four, it provided credit support to the healthcare industry to meet the increasing demand for healthcare services during the outbreak. The loan was available only to pharmaceutical companies and hospitals. Five, it provided regulatory forbearance to banks which allowed banks to temporarily restructure the tenor of existing loan within a specific time period particularly loans to the oil and gas, agricultural and manufacturing sectors. Six, it strengthened the loan to deposit ratio (LDR) policy which allowed banks to extend more credit to the economy. On the other hand, the fiscal authorities had to review and revise the 2020 national budget of N10.59 trillion (US\$28 billion). The government announced that the budget was reduced by NGN1.5 trillion (\$4.90 billion) as part of the measures to respond to the impact of coronavirus on the economy and in response to the oil price crash. The new budget was benchmarked at US\$30 per barrel from US\$57 per barrel in the previous budget.

# Structural factors that worsen the economic crisis Poor public health infrastructure

The public health sector in Nigeria has poor infrastructure such as poor emergency services, few ambulance services, ineffective national health insurance systems, insufficient primary health care facilities, and these problems in the public health sector have often been linked to the high maternal and infant mortality rates in the country (Muhammad et al, 2017). Currently, Nigeria operates a two-tiered healthcare system with a large public healthcare sector and a smaller private healthcare sector. Compared to developed countries, the private healthcare sector in Nigeria is very small because of the limited funding for private health insurance. Also, the majority of Nigeria's healthcare spending is still dominated by out-of-pocket expenditure which account for 70% of total health expenditure, which suggest that most Nigerians either do not rely or trust the health insurance systems in the country or they are unaware of the availability of health insurance. Despite the introduction of the National Health Insurance Scheme (NHIS) in 2004, the population covered by health insurance in 2019 was about 5 percent of the total population.

The Nigerian pharmaceutical industry also has its own problems. The Nigerian pharmaceutical industry is one of the largest in West Africa, and accounts for about 60% of the market share in the region. But most of the active pharmaceutical ingredients (API) used in Nigeria are imported from China, and only 10% of the drugs used in Nigeria are manufactured locally in the country. The industry is facing many problems such as poor infrastructural and unreliable utilities, scarcity of skilled workers, poor access to finance, lack of appropriate government incentives, policy incoherence by the government, poor demand due to robust competition from Asian companies particularly China, high cost of doing business as a result of imported and expensive production inputs, regulatory problems, among others. Nigeria has a drug market that is almost unregulated because the health agencies have difficulty in preventing the importation of illegal drugs and difficulty in tracking informal drug sellers that operate without a registered license (Fatokun, 2016).

### A weak digital economy

Before the Covid-19 outbreak began, Nigeria already had a weak digital economy. There were hardly any university or school that offered a full educational curriculum online from start to finish. Most businesses,

including banks and technological companies, operated using the traditional 'come-to-the office-to-work' model as opposed to the 'working from-home' model. The outbreak of the novel coronavirus brought challenges to the business environment in Nigeria. It impacted industries and markets in the short term. The operations of these markets and industries would have been minimally affected if they had a large digital operation infrastructure. The only services that were offered through the existing digital infrastructure during the Covid-19 outbreak were telecommunication services, digital bank transfers and internet services.

The digital economy would have played a major role in driving recovery from the economic crisis if Nigeria's digital economy was robust and well-developed. For instance, in Nigerian schools and universities, educators can put coursework online so that students quarantined at home don't have to miss out on key aspects of their education while school is closed or when students can't get to school. E-commerce apps that enable online buying and selling can allow buyers and sellers to make purchases and sales while staying in their homes. Also, telehealth apps for health and wellness checks can allow individuals in all affected areas to take extra precautions to monitor their vital signs and learn how to reduce their risk of infection. Also, family members can visually check on their parents, grandparents and siblings without physically visiting them which provides a level of comfort that would be impossible over the phone. Online delivery businesses can use virtual assistants to help ensure that goods purchased from online grocery stores are delivered when customers need them. Businesses that don't want their workforces to travel or whose employees are uncomfortable taking trips can stay connected with team members, clients and prospective clients around the world using software platforms video conferencing technologies. All these are possible when there is a robust and well-functioning digital economy.

### Inadequate social welfare program (Palliatives)

Before the Covid-19 outbreak, there were major social problems in Nigeria which include child abandonment, armed robbery, homelessness, mental health problems, divorce, and problems of single parenting. These social problems can only be addressed with serious social welfare policy and program. But, currently, social welfare activities in Nigeria is under developed, poorly funded and is unavailable to majority of those who need them (Ahmed et al, 2017). Nigeria does not have a national social welfare program that offers assistance to all individuals and families in need such as health care assistance, food stamps, unemployment compensation, disaster relief and educational assistance. The consequence of not having a national social welfare program became evident during the coronavirus outbreak of 2020. During the outbreak, people had little to rely on, poor citizens did not have welfare relief that could help them cope with the economic hardship at the time. There were no housing subsidies, energy and utilities subsidies, palliatives and assistance for other basic services to individuals that were most affected by the coronavirus outbreak. There are debates on the benefit of using social welfare programs to alleviate poverty and to help citizens cope with disasters (Luenberger, 1996; Dolgoff et al, 1980; Abramovitz, 2001), and social welfare theories provide different perspectives on how social welfare can be designed to meet the basic needs of the people (Fleurbaey and Maniquet, 2011; Arrow et al, 2010; Andersen, 2012).

So far, the provision of social welfare services to vulnerable citizens in the population is the most proven way to protect them from economic hardship in bad times (Ewalt and Jennings Jr, 2014), and the lack of such welfare services for vulnerable people, households and poor individuals during the coronavirus outbreak in Nigeria caused severe pain and economic hardship to households and poor individuals. The implication of this is that social welfare is not a policy priority by policy makers in Nigeria.

# 3. CONCLUSION

The reality of coronavirus disease calls for great measures and strategies to be put in place and for the survival of both humanity and business. The structural problems in Nigeria prolonged the economic crisis. This paper suggested ways SMEs can cope in this era of the coronavirus pandemic. Also, a model in which business can use to help win the fight against the invisible enemy. SMEs should obey all laid down health advices, as we seek God's face to heal the world from this pandemic.

### 4. RECOMMENDATIONS

- The government should put in place supportive fiscal measures if such outbreak should occur again in the future.
- There should provide several channels through which outbreaks such as COVID 19 would not affect economic activity of Small Medium Enterprise (SME's).
- There should be a forecast on analysis on certain sectors and economy to reducing the magnitude of such occurrence.
- The government should boost economies of scale and production linkages should not be affected.

- Also, the government should find appropriate measures if such outbreak should occur than affecting the economy by closing borders, travel bans and restriction of goods and people.
- Experts should be involved and emergency loan should be given to citizens if such outbreak should occur

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